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New Issue

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City of Arlington, TX

New Issue: Moody's Assigns Aa1 to Arlington, TX's GOLT

Summary Rating Rationale

Moody's Investors Service has assigned a Aa1 rating to the City of Arlington, TX's $55.55 million Permanent Improvement Bonds, Series 2017 and the $5.685 million Combination Tax and Revenue Certificates of Obligation, Series 2017. Concurrently, we have affirmed the Aa1 rating on the city's outstanding general obligation bonds which will total $415.4 million post-sale.

The Aa1 rating reflects the city's large and diverse tax base bolstered by the institutional presence of the University of Texas at Arlington, average wealth indices, historically stable financial operations supported by significant additional liquidity outside the General Fund, and a slightly elevated debt and pension profile for the rating category that is expected to remain at the current level given additional debt plans.

Credit Strengths

» Favorably located in the Dallas/Fort Worth metro area

» Significant additional liquidity held outside the General Fund

» Experienced and sophisticated management team

» Economic stability provided by the presence of UT Arlington and two professional sports teams (Dallas Cowboys and Texas Rangers)

Credit Challenges

» Below average wealth indicators for the rating category

» Slightly elevated debt burden relative to rated peers

» Elevated fixed costs relative to operating revenues

Rating Outlook

The stable outlook reflects the favorable location in the economically vibrant Dallas/Fort Worth metroplex, and the expectation that the stable economic picture in combination with an experienced and sophisticated management team will translate to a continuation of healthy operations and liquidity.

Factors that Could Lead to an Upgrade

» Significant improvement to wealth indicators

» Continued taxable value growth in combination with moderated debt burden

Factors that Could Lead to a Downgrade

» Erosion of current available reserves

» Significant taxable value decline

» Significant debt issuance without corresponding tax base growth

Key Indicators

Exhibit 1

Arlington (City of) TX	2012	2013	2014	2015	2016
Economy/Tax Base					
Total Full Value ($000)	$ 17,323,444	$ 17,677,891	$ 18,088,407	$ 18,905,766	$ 19,601,363
Full Value Per Capita	$ 47,183	$ 47,615	$ 48,197	$ 49,789	$ 51,668
Median Family Income (% of US Median)	95.6%	95.5%	96.0%	95.0%	95.0%
Finances					
Operating Revenue ($000)	$ 264,866	$ 270,609	$ 278,455	$ 289,508	$ 285,327
Fund Balance as a % of Revenues	38.3%	33.8%	32.1%	31.5%	31.3%
Cash Balance as a % of Revenues	37.3%	32.2%	30.4%	29.5%	27.9%
Debt/Pensions					
Net Direct Debt ($000)	$ 248,257	$ 312,040	$ 325,315	$ 333,450	$ 363,048
Net Direct Debt / Operating Revenues (x)	0.9x	1.2x	1.2x	1.2x	1.3x
Net Direct Debt / Full Value (%)	1.4%	1.8%	1.8%	1.8%	1.9%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	N/A	1.6x	1.7x	1.8x	1.9x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	N/A	2.4%	2.6%	2.8%	2.8%

Operating Revenues includes General and Debt Service Funds; Transfer from the Arlington Tomorrow Fund to Texas Live development has been netted out.
The city's Debt Service Fund includes revenues, expenditures and reserves associated with the Cowboy Stadium bonds.
Source: Moody's Investors Service; city audited financial reports

Recent Developments

The city of Arlington has continued its trend of tax base expansion reporting a fiscal 2017 assessed value of nearly $21.4 billion, up 9.1% from fiscal 2016. Additionally, fiscal 2016 audited financial results ended better than expected with a General Fund surplus of $4.5 million and stable reserves as a percent of revenues.

Detailed Rating Considerations

Economy and Tax Base: Favorably Located in Dallas-Fort Worth Metro Area; Economy Remains Strong

Arlington's tax base will continue to grow in the near term. Located favorably in the center of the Dallas-Fort Worth metropolitan area, the city's economy remains strong and exhibits commercial and residential growth characteristic of the metroplex. Manufacturing and distribution, continue to be important to the Arlington economy, and the two industries are expanding. A recent example includes the $1.5 billion expansion of the General Motors manufacturing plant. The city also benefits from its role as a hub of large, regional entertainment centers which bolsters the tourism industry. Arlington is home to AT and T stadium, Six Flags and Hurricane Harbor, as well as two professional sports franchises - the Dallas Cowboys and the Texas Rangers. Additionally, the city benefits from the institutional presence of the University of Texas at Arlington, which has an enrollment of approximately 36,000, or nearly 10% of the city's population.

The city is mature, although development and redevelopment of various commercial and residential corridors continues. The city's $21.6 billion (fiscal 2017) tax base has experienced annual growth every year following a dip in fiscal 2011, resulting in a five year average annual growth of a strong 4.3%. The tax base is nearly two-thirds residential, and therefore diverse, with the top ten taxpayers representing a low 6.5% of total taxable value.

Positive demographic trends will support continued economic stability over the near term. Following 10% growth in population between the 2000 and 2010 US censuses, the city has continued to experience modest annual growth of approximately 1% and currently has an estimated population of over 383,000. Wealth indicators in the city are average relative to the nation, with a median family income of 95% per the 2015 American Communities Survey. The unemployment rate in the city was a low 4.5% as of February 2017, which was below the state (5.1%) and the nation (4.9%) during the same time period. Year over year, while unemployment remained low, the labor force grew by 2.5%.

Financial Operations and Reserves: Healthy General Fund Reserve Maintained; Additional Liquidity Outside General Fund

Arlington's finances will remain stable supported by the ongoing revenue growth in the city and the forward-looking and sophisticated management team. The city has historically exceeded the adopted fiscal management policy requiring the total General Fund balance to be maintained at a minimum of 15% of annual General Fund expenditures. Following planned draws on reserves from fiscal 2012-2014 for capital expenses, the city has posted surpluses in fiscal 2015 and 2016 and maintained a healthy reserve balance as a percent of revenues. In fiscal 2016, the General Fund reported an operating surplus of $4.5 million, bringing the available reserve balance to $61.1 million, 26.4% of General Fund revenues. The city transferred $50 million from the Arlington Tomorrow Fund, described below, to the General Fund to pay for a planned contribution to the Texas Live development project in the entertainment corridor of the city. The transfer has been netted out of the General Fund revenue calculation. For fiscal 2017, the city expects to report balanced operations. Arlington is largely reliant on property taxes to fund General Fund operations, which accounted for 37% of General Fund revenues in 2016, followed by sales taxes at 25% of revenues and franchise fees at 11%.

The city continues to maintain significant additional resources outside of the General Fund, in the Arlington Tomorrow Fund, which held a cash position of $61 million as of fiscal 2016. Derived from natural gas bonus payments and royalties received by the city, the fund is controlled by a board, made up of the city council and an executive director that is an employee of the city. The city council established a maximum $100 million corpus for the fund, with grants to the community coming only out of earnings above the maximum. For the fiscal 2016 budget, the council authorized $50 million (50%) of the corpus to be applied to a new joint venture with the Texas Rangers to develop a mixed use area to be known as "Texas Live". The city intends to rebuild the corpus over 8-9 years. Despite the substantial drawdown of the fund, the remaining $61 million corpus of the Arlington Tomorrow Fund provides substantial operating flexibility given a super-majority vote of city council could enable it to be used for any lawful purpose of the city.

LIQUIDITY

In fiscal 2016, the cash and investment position of the General Fund was $57.4 million, or 24.7% of General Fund revenues. Inclusive of the Debt Service Fund, on a reported basis, total operating funds cash was $79.6 million, representing 26.6% of revenues in the combined funds. However, the city accounts for revenues and expenses related to the Cowboys Stadium special tax debt, which is secured by dedicated sales and hotel taxes. Netting out $18.9 million in debt service reserve funds of the Cowboy Stadium debt, the operating funds cash position is $60.7 million, or 22% of the operating revenues.

Debt and Pensions: Slightly Elevated Debt & Pensions to Remain Stable Supported by Strict Debt Policies

The city's debt profile will remain manageable over the long term supported by strict debt policies. Per the city's adopted debt management guidelines, the net direct debt burden (total tax supported GO debt less debt service fund balance) must remain less than 2% of assessed value, annual debt service expenditures must be less than 20% of total operating expenditures and debt per capita less than $1,060. Inclusive of the current sale, the city's net direct debt burden is 2% of fiscal 2017 taxable value, and 6.5% including overlapping debt. The city has $149.3 million of authorized but unissued GOLT debt remaining. The city plans to issue debt annually from this authorization through 2020 while remaining within the city's specified debt targets. Projects will generally include replacement of aging infrastructure, risk management and parks and recreation.

The city's fixed cost burden is elevated relative to peers. The higher costs can be partially explained by the city's practice of front-loading principal amortization and pension payments which amortize the city's unfunded pension liability. Debt service accounts for approximately 16% of operating revenues, net of the Cowboy Stadium dedicated revenues and expenditures. Inclusive of pension and OPEB payments, the fixed cost burden increases to 27%.

DEBT STRUCTURE

The city structures its new money debt to amortize over twenty years with level annual principal, resulting in front loaded annual debt service payments. Principal payout within ten years is slower than the median at 68%. All of the city's debt is fixed rate.

DEBT-RELATED DERIVATIVES

The city is not a party to any derivative agreements.

PENSIONS AND OPEB

The city contributes to the Texas Municipal Retirement System (TMRS), an agent multiple-employer plan administered by the state. Budgetary pressures due to the city's participation in the plan are expected to remain manageable in the near term. The city's pension contribution in fiscal 2016 was $24.6 million. The city does offer Other Post-Employment Benefits (OPEB), and payments in fiscal 2016 totaled $6.6 million. Combined pension and OPEB payments account for 11% of operating revenues. Moody's three year average adjusted net pension liability (ANPL) for the city (fiscal 2014 – 2016), under our methodology for adjusting reported pension data, is $556 million, or 2.0x operating revenue. Moody's ANPL reflects certain adjustments we make to improve comparability of reported pension liabilities. The adjustments are not intended to replace the district's reported liability information, but to improve comparability with other rated entities.

Management and Governance: City Exhibits Prudent & Strategic Fiscal Management Supported by Strict Policies

Arlington's management team is sophisticated, strategic and forward-looking evidenced by strict debt and financial policies, which it abides by; publicly available quarterly financial reports; long range financial planning and a strategic approach to all financial and capital planning.

Texas Cities have an Institutional Framework score of Aa, which is high compared to the nation. Institutional Framework scores measure a sector's legal ability to increase revenues and decrease expenditures. Property taxes, one of the sector's major revenue sources are subject to a cap, which cannot be overriden. However, the cap of $25 per $1,000 of assessed values with no more than $15 allocated for debt,still allows for significant revenue-raising ability. Unpredictable revenue fluctuations tend to be minor, or under 5% annually. Across the sector, fixed and mandated costs are generally greater than 25% of expenditures. Texas is a Right to Work state, providing significant expenditure-cutting ability. Unpredictable expenditure fluctuations tend to be minor, under 5% annually.

Legal Security

The permanent improvement bonds and certificates of obligations constitute direct and general obligations of the city, payable from the levy and collection of a direct and continuing annual ad valorem tax, within the limits prescribed by law, on all taxable property located within the city.

The Certificates of Obligation are additionally secured by a pledge of limited surplus revenues ($1,000) of the City's Water and Wastewater System, as provided in the Certificate Ordinance.

Use of Proceeds

The 2017 Improvement Bonds will fund general city capital improvements. The 2017 Certificates of Obligation will fund technology infrastructure and equipment as well as firefighting equipment and vehicles.

Obligor Profile

The city of Arlington, TX is located in the center of the Dallas/Fort Worth Metroplex. The city encompasses 99.5 square miles and has a current population of approximately 383,862.

Methodology

The principal methodology used in this rating was US Local Government General Obligation Debt published in December 2016. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

Ratings

Exhibit 2

Arlington (City of) TX

Issue	Rating
Permanent Improvement Bonds, Series 2017	Aa1
Rating Type	Underlying LT
Sale Amount	$55,550,000
Expected Sale Date	05/10/2017
Rating Description	General Obligation Limited Tax
Combination Tax and Revenue Certificates of Obligation, Series 2017	Aa1
Rating Type	Underlying LT
Sale Amount	$5,685,000
Expected Sale Date	05/10/2017
Rating Description	General Obligation Limited Tax

Source: Moody's Investors Service

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